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INVESTOR BRIEF

ESG Risks at Grupo México

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INTRODUCTION

This investor brief summarizes environmental, social, and governance risks at Grupo México, the third largest copper mining company in the world. Grupo México's wholly-owned subsidiary ASARCO operates copper mines, a smelter, a refinery and processing plants in the United States. Approximately 1,700 workers in Arizona and Texas walked off the job in October 2019 to protest the company's serious unfair labor practices¹ after management demanded significant increases to healthcare costs and refused to raise wages, which would remain stagnant for 14 years under the company's contract proposal.² The strike has gained investor attention and crippled the company's Hayden smelter and Amarillo refinery operations.³



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GRUPO MÉXICO (GMEXICOB)

Grupo México is a mining company based in Mexico City with businesses in copper production, rail transportation and infrastructure, and energy. The company has operations in Argentina, Chile, Ecuador, Mexico, Peru, Spain and the United States. Grupo México is the third largest copper mining company in the world and produced over 1 million tonnes of copper in 2018 from its operations in Peru, Mexico and the USA. The company has nearly 32,000 employees. Its market capitalization is \$21 billion USD as of December 12, 2019. It is a constituent of the MSCI Emerging Markets Index.

Grupo México is majority owned (59%) by the Larrea family.

Name	Ownership
Major shareholders	
Empresarios Industriales de México, S.A. de C.V./ Germán Larrea Mota Velasco ⁴	59%
Pershing LLC	2%
Banco Inbursa, S.A F/1783 Maximino Salazar Nava	1%
Banco Santander Internacional	0.25%

Other institutional shareholders include:	
BlackRock	2.60%
Dimensional Fund Advisors	0.99%
Amundi Asset Management SA (Investment Management)	0.13%
Vanguard	0.03%
BC Investment Management Corp.	0.02%

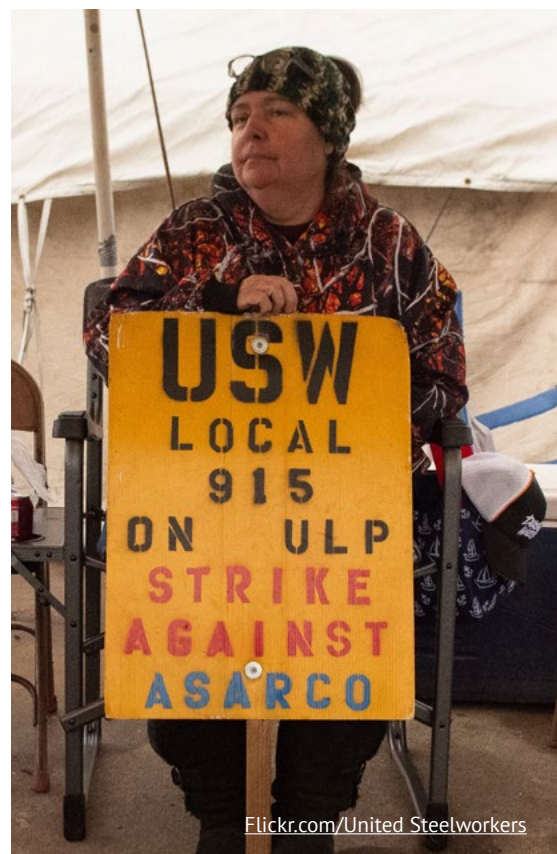
ASARCO, LLC

ASARCO is a wholly-owned subsidiary of Grupo México. ASARCO operates copper mines, smelter, refinery and processing plants in five locations in the United States, located in Arizona and Texas. The company has approximately 2,700 employees.

Investor responsibilities under international norms, standards and frameworks

Under the *OECD Guidelines for Multinational Enterprises*, investors have a responsibility to use their influence with companies to prevent or mitigate adverse human rights impacts.⁵ The OECD Guidelines urge multinational companies such as Grupo México to respect internationally recognized human rights of those affected by its activities and to carry out risk-based due diligence to identify, prevent and mitigate actual and potential adverse impacts.⁶ The *UN Guiding Principles on Business and Human Rights* require companies to respect human rights and fulfill the responsibility to avoid causing adverse human rights impacts and address such impacts when they occur.⁷

On February 18, 2016, the United Steelworkers in the United States and the National Union of Mine, Metal, Steel and Related Workers (Mineros) in Mexico submitted a Specific Instance involving ASARCO to the U.S. National Contact Point (NCP) for a breach of the OECD Guidelines, alleging conduct inconsistent with General Policies (Chapter II), Human Rights (Chapter IV), Employment and Industrial Relations (Chapter V), and Taxation (Chapter XI). The U.S. NCP determined that issues raised in the Specific Instance were substantiated and offered mediation, but Grupo México and ASARCO declined to participate in mediation. The U.S. NCP, in the final statement it issued on August 9, 2016, recommended that the companies express their commitment to respect human rights through a statement of policy and that the board of the parent entity ensure compliance in accordance with the *OECD Principles of Corporate Governance*.⁸ The companies have not issued this suggested statement of policy.



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ESG Risks at Grupo México

Governance Risks

There is significant governance risk at Grupo México because the company does not disclose the identity of director nominees for shareholders to vote on. At the company's recent shareholder meetings, it has asked shareholders to approve a resolution to "Elect or Ratify Directors; Verify Independence of Board Members; Elect or Ratify Chairmen and Members of Board Committees" without disclosing the names of the director nominees. Without a transparent nomination process where director nominees are disclosed in advance, investors cannot ensure board accountability. In announcing its intention to vote against this measure in

2019, Norges Bank Investment Management called on Grupo Mexico to disclose the name of its board nominees and to unbundle the election of directors.⁹ Institutional Shareholder Services recommended that its clients vote against this resolution at the 2020 Annual General Meeting, noting that “[a]lthough a lack of nominee disclosure remains market practice, this significantly disenfranchises shareholders voting by proxy.”¹⁰

Workers’ rights and social risks

In October 2019, approximately 1,700 U.S. workers rejected ASARCO’s proposal in labor contract negotiations.¹¹ The company proposed no wage increase for nearly two-thirds of workers, freezing the existing pension plan, and more than doubling the out-of-pocket contribution that workers pay for health care.¹² The contract proposal would leave most of the workers without any wage increase for 14 years.¹³ Workers voted to strike in October 2019 at the Mission, Silver Bell and Ray open pit copper mines in Arizona, as well as at a concentrator and smelter in Arizona and a refinery in Texas.¹⁴ The company is currently idling the smelter and refinery.¹⁵ In June 2020, Region 28 of the U.S. National Labor Relations Board issued a consolidated complaint against ASARCO, alleging that the company had bargained in bad faith and engaged in coercive activities in violation of U.S. labor law, and will schedule a hearing for an administrative law judge to review evidence against ASARCO for unfair labor practices.¹⁶

The ASARCO labor dispute is not the first time that Grupo México has faced allegations of violating workers’ rights. In 2015, the Federal Board of Conciliation and Arbitration in Mexico ordered Grupo México to pay more than 318 million pesos (\$19 million USD) for unpaid profit sharing for 2007 to the Mineros’ members in Cananea, Sonora.¹⁷ In 2019, ASARCO had to pay US\$10 million in copper bonuses to its U.S. workers that were unpaid from 2011 to 2015¹⁸ after the U.S. Supreme Court denied the company’s petition.¹⁹

Workplace Health and Safety Violations

Between 2010 and 2020, the U.S. Occupational Safety and Health Administration found at least 26 violations at ASARCO that resulted in monetary penalties and the U.S. Mine Safety and Health Administration found 576 cases of violations that resulted in monetary penalties totaling over \$3.3 million USD.^{20,21} On July 27, 2017 at ASARCO’s mine in Arizona, an employee in a flatbed service truck was parked on a waste dump and a 320-ton haul truck ran over the flatbed service truck. This resulted in a fatal accident.²²

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Grupo México also has had worker fatalities in its global operations. In February 2006, a methane gas explosion at Grupo México's Pasta de Conchos mine in Mexico caused 65 deaths.²³ In 2011, a fatal accident occurred at Grupo México's Toquepala mine in Peru because of a landslip from an area that had experienced repeated rock falls.²⁴ In 2014, five miners died at Grupo México's San Luis Potosí mine in Mexico when a cage carrying the men plunged 750 meters down a lift shaft.²⁵

Environmental Risks

In 2009, ASARCO paid \$1.79 billion USD as part of the largest environmental bankruptcy in U.S. history to settle claims by the U.S. Environmental Protection Agency for hazardous waste pollution and fund environmental cleanup and restoration at more than 80 sites.²⁶ In 2015, the U.S. Department of Justice and the U.S. Environmental Protection Agency reached a settlement with ASARCO to pay a \$4.5 million USD civil penalty and spend \$150 million USD to improve its pollution control technology at its Hayden, Arizona smelter.²⁷ In 2020, the U.S. Environmental Protection Agency received a \$33,000 USD penalty from ASARCO for failure to implement a federally mandated fugitive dust control plan under the Clean Air Act.²⁸

Grupo México has also had environmental problems in its operations in Mexico. In August 2014, Grupo México's Buenavista del Cobre mine spilled toxic chemicals into the Sonora and Bacanuchi rivers in Mexico which was alleged to have harmed the health of 22,000 local community members and affected 250,000 people indirectly.²⁹ To remediate the damage, the Government required Grupo México to contribute to a trust established for the benefit of the affected communities. Grupo México subsequently attempted to extinguish the trust, but in January 2020 the Mexican Supreme Court blocked this action, continuing the company's potential liability.³⁰ In July 2019, Grupo México's Guaymas facility spilled 3,000 liters of sulfuric acid into Mexico's Sea of Cortez and Mexico's Federal Prosecutor for Environmental Protection (Profepa) ordered the facility to close temporarily.³¹

WHAT TRUSTEES CAN DO

Your pension plan's assets may be invested in Grupo México through allocations with asset managers such as BlackRock, Dimensional, Amundi Asset Management SA, Vanguard, and BC Investment Management.

You can:

- Request that your pension plan, directly or through your investment manager(s), **engage with Grupo México to convey your concern about the ESG risks associated with ASARCO's U.S. operations** and urge the company to engage in good faith collective bargaining as required under the *OECD Guidelines for Multinational Enterprises and UN Guiding Principles on Business and Human Rights*.

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ENDNOTES

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- ² Joshua Gerard Gargiulo, "Asarco, striking workers continue to be at odds after four months," *Cronkite News*, https://tucson.com/business/asarco-striking-workers-continue-to-be-at-odds-after-four/article_6d56642f-d918-5fcd-b99b-006d91ef95c1.html.
- ³ Q1 2020 Grupo México SAB de CV Earnings Call Transcript, *Thomson StreetEvents*, April 27, 2020 (May 13, 2020), <https://finance.yahoo.com/news/edited-transcript-gmexicob-mx-earnings-080921174.html>.
- ⁴ Empresarios Industriales de México, S.A. de C.V. is controlled, directly or indirectly, by the Larrea family and owns over 40% of Grupo México shares. Germán Larrea Mota Velasco, who is also CEO and chairman of Grupo México, owns 19% of shares. Source: Grupo México 2018 Annual Report
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